HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

SPRING 2003

Metro Victoria

2003-04 at a Glance

- ***Victoria's housing markets buoyant***
- ***Resale market sales to edge up, prices higher***
- ***New homebuilding climbing - both singles and multis***
- ***Rental markets remain tight through 2004***
- ***New condo and new house markets balanced***
- ***Land sales steady, lot prices rising***

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RESALE MARKET

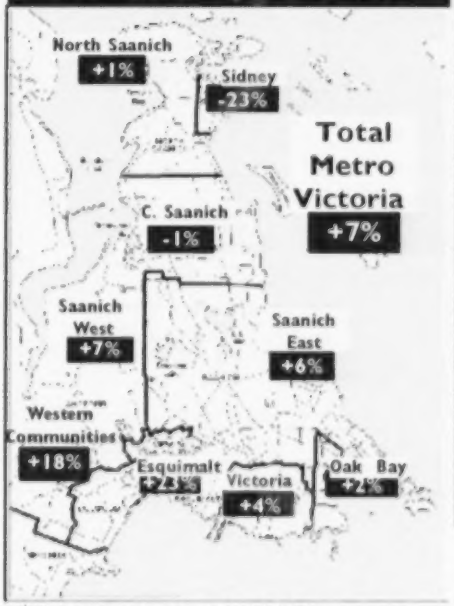
Sales, prices on the rise

MLS®[1] sales volumes for Metro Victoria will expand 2.2 % next year. This year will see slight slippage in sales, on the heels of two exceptional growth years in 2001-02.

Average prices for all home types will ramp up this year, with condo apartment prices leading the pace in 2004 as more new suites come on stream. **Annual average house prices are forecast to exceed $300,000, a record high for Victoria.**

continued on page 2...

House Sales by Sub-market, 2001-2002



[1]Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

CMHC SCHL

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HOME TO CANADIANS
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Resale Market ...continued from page 1

Single family home sales are forecast to reach 4,280 in 2004, improving on the 4,200 deals expected in 2003. Condo **apartment and townhouse sales will grow at a slightly faster pace**, to a forecast 1550 apartment and 650 townhouse transactions in 2004.

Single family house average prices will rise 6.3% in 2003 and a further 2% in 2004 as demand continues strong. Buyer activity is heating up in all house types this year, **fueling broad-based price increases**.

MLS® House Sales by Market

1st Quarter 2003, Metro Victoria

	Average House Price	Average Days to Sell	Average Size Sq. Ft.
Victoria City	$271,815	42	1,754
Oak Bay	$385,978	38	1,989
Esquimalt	$222,776	56	1,637
Saanich East	$314,268	34	2,140
Saanich West	$247,990	41	1,761
Central Saanich	$338,595	48	2,306
North Saanich	$360,947	70	2,419
Sidney	$245,927	57	1,615
Western Communities	$248,478	55	1,979

Source: Victoria Real Estate Board, CMHC Victoria

Metro Victoria 2003 **single family home sales are 13% behind** last year's levels, for the first quarter. Last year saw a 7% growth in sales (see map on page 1), led by **jumps of 23% in Esquimalt** and **18% in the Western Communities**. This year, strong growth markets are forecast in **Sidney, North Saanich,** and again, in the **Western Communities**.

The average selling price of a **single family home** in Metro Victoria is forecast at $304,000 in 2004, up from $298,000 in 2003. **Prices are continuing the uptrend first noted in early 2001** when demand for homes began to escalate, and rising sales decreased the number of active listings on the market.

Single family home listings remain low, putting upward pressure on prices. Low interest rates and rising consumer spending on housing maintain strong market demand and the market continues to favour sellers. The **sellers' market is expected to remain through mid 2004**.

Year-to-date 2003 figures show a strong sales-to-active listings ratio for single family homes, just above 40% this spring. Houses are taking an average of 41 days to sell, down from 49 last year. Listings are down 10%, and the average sale price is up 10%. These **market indicators** show the single family house market currently favours sellers, and is not expected to return to balanced conditions until late 2004.

Esquimalt Houses Least Expensive in Victoria

Esquimalt continued as the most affordable Metro Victoria market in first quarter 2003, with an average house price of $222,776.

Sidney, Saanich West and the **Western Communities** were close behind, at $245,927-248,478. **Victoria City** was the only other area with average prices below $300,000.

Oak Bay and **North Saanich** continued to lead the **trade-up market**, with average prices of $385,978 and $360,947. **Saanich East** and **Central Saanich** averaged $314,268 and $338,595.

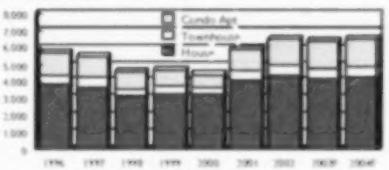
Condo Markets Continue Recovery in 2004

Metro Victoria's **townhouse sales dipped** last year but will recover in 2003-4. Average townhouse **prices continue to climb,** and are expected to surpass $230,000 next year. The market has favoured sellers since mid 2002, following four years of buyers' market conditions. During first quarter 2003, sales rose 14%, active listings tumbled 24%, and average prices rose 16%. The low number of listings and steady demand is putting **strong upward pressure on prices**.

Metro Victoria's apartment condominium sales are forecast to continue growing through 2004. Apartment sales recorded exceptional growth in 2001-2, following the snail's pace experienced during 1999-2000. Buyers outnumber sellers, therefore the **apartment condo market**

MLS® SALES

METRO VICTORIA



Source: Victoria Real Estate Board, CMHC Victoria

favours sellers. Average price uptrends are projected to persist through 2004 while buyers continue to have **limited selection**.

Mortgage Carrying Costs Rising

Higher single family house prices mean larger **qualifying incomes** for purchasing a home this year, despite low interest rates. Next year, qualifying income required for average-priced homes **will shoot up to record levels, forecast at $90,334**, from $80,269 in 2003.

Fewer households will qualify to purchase homes in late 2003 and through 2004, as interest rates and home prices rise. Metro Victoria homebuying qualifying income calculations are based on actual interest rates, MLS® average house prices to 2002 and CMHC forecasts for 2003-04 (see back page for details).

Visit **www.housingaffordability.ca** for the latest on getting housing to market more affordably in B.C.'s Capital Region. **Housing Affordability Partnership (HAP)** is a cross-sectoral group working to highlight awareness of emerging housing issues and opportunities.

NEW HOME MARKET

New Home Market Strengthening

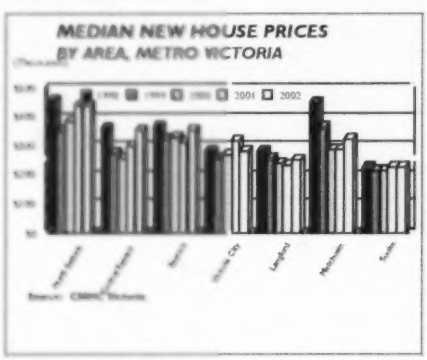
New homebuilding **will grow in all sectors during 2003-04,** building on the recovery begun in 2001-02. **Ownership housing will continue to dominate Victoria new home markets,** as it has since 2001 when rental construction led the pace.

Interest from move-up and move-down buyers will stay strong through 2004 as sales prospects for their current homes improve with strong resale market activity. Fewer **first-time buyers will be active** in the new home market as interest rates and prices rise, but a larger selection of new condos will attract some.

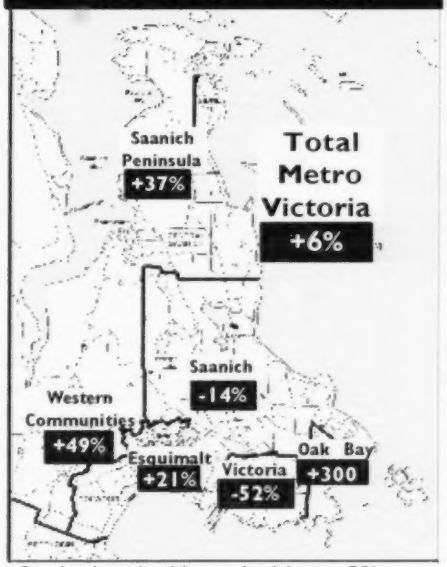
CMHC forecasts **1650 new home starts for Metro Victoria during 2004**. In 2003, 1465 new homes are expected to break ground, up 9% from 1344 in 2002. Metro Victoria's improved levels of construction are tracking the B.C. homebuilding recovery.

New House Market Buoyant

New single family house starts are forecast to **exceed 900 annually in 2003-04** as strong demand for new houses continues. Last year, new house building rose 39% to 879.



New Housing Starts, 2001-02 (%change)



Single detached housebuilding is 9% below last year's levels, in the first three months of 2003. This year, demand for new houses will be boosted by **rising consumer confidence, strong resale market sales, employment growth, steady price growth** and **low interest rates**.

The new **house market will remain balanced through the end of 2004,** as supply keeps pace with demand. **Inventories will stay low** as most new houses are sold before or during construction. A small but growing market for speculative building is anticipated. **High lot costs, rising development fees** and **financing restrictions** remain barriers.

This year, the **Western Communities** will again capture Metro Victoria's **largest market share of new house starts** taking half of the total (up from 48% market share in 2002). **Saanich** is the strongest single municipality, with close to a one-third share of new housebuilding, followed by **Langford**, with a one-fifth share. Subdivisions are under development in **Sooke**, **View Royal**, **Langford**, **Colwood**, and **Saanich** - several with multi-year buildouts.

New House Prices Rising

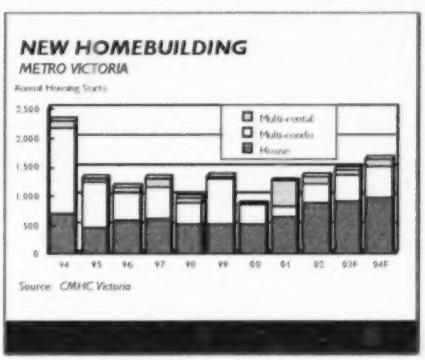
Strong demand and higher building costs are **driving new house prices higher.** This year, the median new house price will edge up 3.7% and it is **forecast to rise 5.0% in 2004**. The expected increases will finally push median prices beyond 1998's high of $325,000.

New homebuyers will have **a wide range of new houses to choose from this year,** patterned after the diverse selection available since 2000. Many new houses will get underway on affordable lots; the market for these modest new homes is **extremely price-sensitive**, keeping sale prices in check despite rising costs.

Construction of **modest houses** in **View Royal, Langford, Colwood** and **Sooke** is **moderating price increases** slightly. **Saanich, North Saanich, Oak Bay** and large properties in the **Western Communities** will remain popular with the **luxury market**.

Prices for 1½-2 storey houses will rise in 2003-04, with a forecast median of $320,000 compared with $305,000 in 2002. **New one storey house prices are expected to surge as more luxury retirement houses are built:** half will be priced under $297,000, up from $283,000 in 2002.

continued on page 4...



New Home Market.. continued from page 3

New Townhouse Market Steady in 2003-04

New townhouse starts more than doubled last year and will continue at a similar pace in 2003-04. Over the next two years, starts are forecast at 130-145 annually; in 2002, 140 new townhouses got started.

During the first three months of 2003, **52 townhouses broke ground,** well ahead of the 29 started during the same period in 2002. This year's **new townhome inventories are more than double 2002's low levels**.

New townhouse **projects continue to be held back** by **high land prices** caused by a **shortage of suitably zoned and serviced sites**. More new **townhouses are now geared to the family market**, containing three or more bedrooms - market share rose from 42% to 47% in 2001-02, This year, market share of three bedroom units is forecast at 55%.

In 2003, median **prices are forecast to rise 3.8% to $275,000 for a new three bedroom townhouse,** pushed higher by steady sales and limited supply of new units. The 2004 price uptrend is forecast at 5.5%.

New Apartment Market Recovery in Gear

This year will see **new condo apartment starts rise 77% while a further 24% increase is forecast for 2004.** Meanwhile, **new rental apartment construction remains slow in 2002-04** on the heels of 2001's exceptional 421 starts.

Strong demand for luxury condo suites and growing demand for affordable product in convenient locations is driving building in these two dissimilar categories.

Metro Victoria new condo apartment inventories achieved a new low this spring, with just 23 completed and for sale at March 2003. **The market remains balanced** as the number of condos under construction is on the rise, a positive indicator.

Apartment condo construction is reviving after the doldrums of the previous three years. Strong levels of apartment construction in the late 1990s, coupled with market disinterest as a result of building envelope failures, **meant demand in 2000-02 was satisfied largely from completed units.**

Apartment condo inventories reduced during the first three months of 2003, as **no new units completed and 31 sold**. CMHC expects the **new condo apartment market** will **move to a temporary undersupply** at mid year 2003 as building lags rising demand.

Luxury condos will again capture most of the 2003 market. **Loft style suites** and **moderate suburban suites** are seeing some interest, and are being built to satisfy the market niche for affordable units. Two bedroom suites priced over **$220,000** are capturing the lion's share of this year's market and are expected to do well again in 2004. However, $140,000 to $199,999 suiteswill also see strong interest over the next eighteen months.

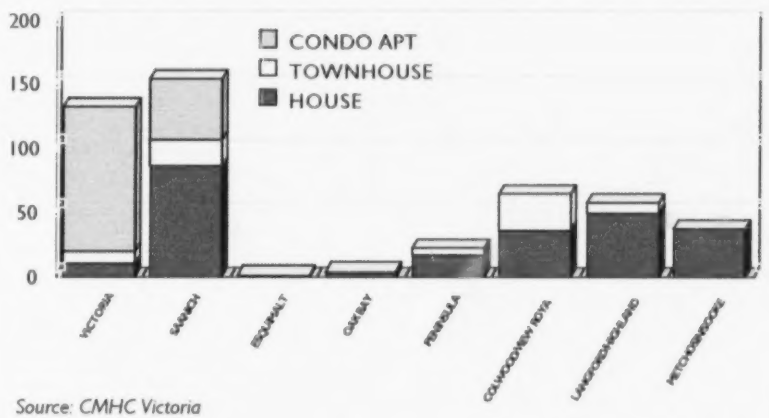
Beginning in 2001, **market share of luxury apartments escalated** and **surpassed** mid range market share by a large margin. Condos in prime locations (waterfront or waterview) in the core municipalities led the price jump. This year will see shifting of that trend as **affordable** and **mid range product demand rises**.

Median new **apartment condo prices will trend up to $285,000** in 2004 from an expected $275,000 in 2003. **Price increases will be kept in check** by variations in product mix during 2003-04: a smaller proportion of luxury vs. affordable suites is expected.

Currently, new condo buyers can choose from a limited but widening selection of prices, styles and locations. Most 2004 condos will be built on **Saanich, Sidney, Esquimalt and Victoria City redevelopment sites**, while others will get underway in the **Western Communities.** ❖

NEW HOUSING STARTS BY TYPE BY AREA, METRO VICTORIA

January-April 2003



Source: CMHC Victoria

More new condos underway this year - most in Victoria City and Saanich

Land Prices Up, Sales Steady

Single family lot **prices are rising this spring** in Metro Victoria, while overall sales hold steady. Lot **sales are rising in the Western Communities**, but are waning in urban core areas due to supply constraints.

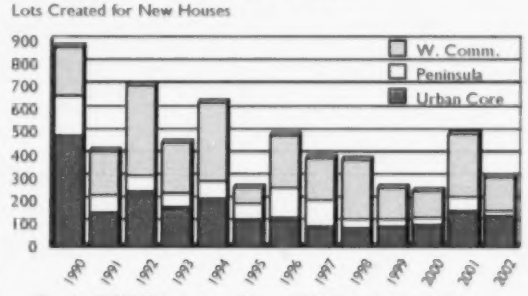
The January-April 2003 median price for serviced lots included **$175,000** in **Saanich**, **$168,000 in North Saanich, $194,000 in Central Saanich**, **$120,000** in **Langford, $110,000 in Colwood** and **$142,000** in **Metchosin**.

Sales of Metro Victoria **multiple land sites** remain slow, as few **new townhouse and apartment projects** get underway on land which has recently changed hands. Land prices per unit in 2003 range from $20-30,000 for apartments to $40-70,000 for townhouses.

Single family dwelling land supply showed **improvement in 2002** with additional lots created in the Capital Region; this trend will continue **as homebuilding grows**. The largest share of new single detached lots is located in the **Western Communities.**

The ongoing **land shortage**, combined with high prices and financing restrictions will **continue to restrain the total supply in 2004**. Housebuilding is growing in 2003-04, and the region-wide lot supply constraint **is driving lot prices higher**. New subdivisions in **Langford, Sooke, Colwood** and **View Royal** will help supply lots through 2004. However, upward pressure on land prices **will erode housing affordability** as the housing market recovery unfolds. ❖

HOUSE LOT CREATION
BY AREA, METRO VICTORIA



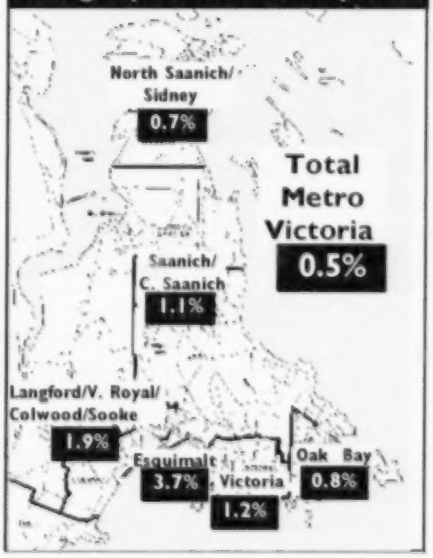
Graph: CMHC Victoria Data: CRD Development Review

Rental Markets See Few Vacancies

Rental apartment vacancies are expected to edge down in 2004. This year, vacancy rates will continue an rising trend from 0.5% reported in 2001 and 1.5% in 2002 Average rent **increases will exceed 2.9% annually,** overtaking the inflation rate. Limited choice of **rental apartments** will be available in all Metro Victoria submarkets through 2004. Low vacancies and rising rents will also apply to the **rental townhouse market** in 2003-04.

Market rental construction will remain a small part of new multi-family projects in 2003-04. **Ongoing barriers to rental development** include high land costs, municipal DCC's, weak industry response to municipal incentives for affordable housing, and limited non-profit financing from government. Investors find these impediments render new rental development **unviable**, thus will pursue other opportunities such as **mixed-use, niche market, condo, or commercial projects**.

Victoria Rental Submarkets,2002
Average Apartment Vacancy Rates



B.C. RENTAL MARKET TRENDS

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Call CMHC Victoria for more details, or visit http://**www.cmhc.ca**

Economy: Growth on Track

Metro Victoria economic growth is **tracking BC's stronger-than-expected growth** this year. Next year's growth is forecast at slightly stronger levels than 2003.

For 2004, CMHC anticipates **moderate growth** in the provincial economy, employment and **net migration**. BC interprovincial migration is forecast at a net outflow of 3,000 people in 2003, and 1,000 in 2004. This continues the improving trend from 5,337 net outflow in 2002; 8,991 in 2001 and 14,123 in 2000. **Steady international migration** (28-33,000 annually) more than offsets the loss of interprovincial migrants. Migration improvements assist **the continuing recovery** of provincial housing markets.

Victoria employment is forecast to grow 2.1% this year and a further 2.5% in 2004 after edging up 1.5% in 2002. This year's gains are expected to be strongest in **construction, goods producing, defense and primary industries,** while slow recovery will occur in **manufacturing, health care,** as well as **finance, insurance** and **real estate.** Negative growth is expected in **public administration** and **retail/wholesale trade.**

Metro Victoria's **unemployment rate** is expected to hold steady over the next 18 months, at close to 7%. Unemployment lessened slightly in spring 2003, from last year's average of 7.1% . BC unemployment will track close to 8% in 2003-04.

At March 2003, the **value of major capital projects** proposed, planned or under construction in Metro Victoria totalled **$1.3 billion**, about one-quarter more than the spring 2002 figure. Major projects **scheduled to break ground in** 2003-04 include the **Railyards Development, Buckerfields Project, Multi-purpose arena** and **Belleville St. Terminal redevelopment.**

Developments underway with **multi-year buildouts** include **Victoria International Airport expansion, UVic Expansion, Selkirk Waterway, Christmas Hill, Bear Mountain Golf Resort, CFB Esquimalt Improvements, Mount St. Mary Hospital Replacement, Cordova Bay Road** residential and industrial complex and the **Royal Bay Project**

The Metropolitan Victoria economy will continue to diversify in 2004, with the **high technology industry** (including call centres), **distance learning** and **TV/Film production** playing major roles. Victoria is home to **BC's second largest technology market** after Vancouver.

In 2004, the **tourism industry** is anticipated to consolidate previous gains, following small declines in 2001-03 stemming from terrorist events and the Middle East conflict. **Ecotourism** and **marketing alliances,** bolstered by high profile Royal BC Museum events and hotel expansions, will help drive industry sales.

First quarter 2003's hotel occupancy rates were **off 2%** while 2002 saw a 0.5 % dip. Victoria Conference centre saw 25% more delegate days in 2002, compared with 2001. Victoria International Airport and BC Ferry Tsawwassen - Swartz Bay vehicle volumes **declined 5% from 2001 levels**. Tourism Victoria expects **limited growth in tourism revenue** for 2003-04.

Metro Victoria population is forecast to hit 315,300 next year, up 0.6% over 2002's total of 313,450. In 2004, net migration to Victoria will **follow B.C. trends**, holding at 2,150 from similar levels in 2003.

Mortgage Rates Edge Up

Mortgage rates will begin to rise in 2003, but remain low by historical standards. Expect short-term rates to move up, in tandem with the prime rate. Longer term rates will vary according to the cost of raising funds in the bond market.

One, three, and five year closed mortgage rates will increase to the 5.00-6.50, 6.00-7.50 and 6.50-8.25 per cent range, respectively.

Rates are expected to approach the high end of the forecast ranges by the end of 2004. **Mortgage rate discounts** will remain an important competitive instrument over the forecast horizon. ❖

2003 Canadian Housing Observer Now Available on CMHC's website

A comprehensive overview of Canadian housing conditions and trends and the key factors behind them - compare rents, prices and other housing indicators in major metropolitan areas. An important tool to help identify, address and monitor Canadian housing trends and issues, the Observer provides an integrated view of the housing challenges and changing needs of Canadians.

RENOVATION MARKET

RENOVATIONS ON THE RISE

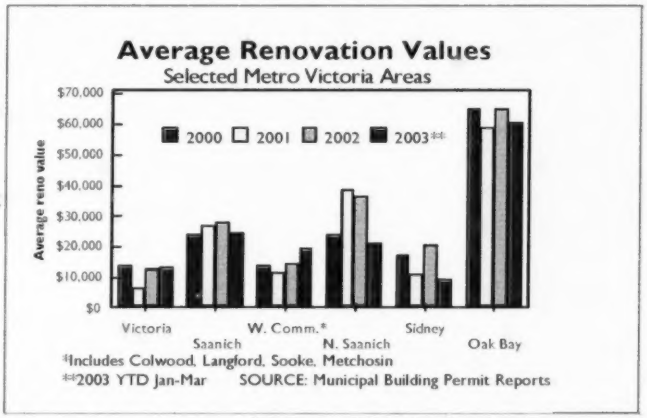
Metro Victoria is seeing **more renovations underway this year** compared with 2002; renovation values are also on the rise. Next year, both project volumes and average renovation values are forecast to improve on 2003 levels.

The 2002-03 resale market recovery is boosting renovation activity. Some buyers prefer to **purchase and make improvements** to existing housing instead of buying new homes. Rising renovation volumes since 2001 mean more stability in both the **construction** and **real estate** sectors. High **development and lot costs** and an **aging housing stock** are pushing renovations higher in both value and volume this decade throughout Victoria.

During the first three months of 2003, the **number of building permits issued for residential renovations** in the **City of Victoria rose 7% from** 2002 levels while **Saanich's** permit tally slipped slightly. **Western Communities** renovation volumes held steady as compared to the previous year. These three areas account for the bulk of all residential renovation permits issued in all of Metro Victoria. **Oak Bay** permit volumes increased 4% while **Esquimalt** jumped 14%. **Saanich Peninsula** permit volumes in the surged 38%.

January-March 2003 Metro Victoria average renovation values **grew 2% from** 2002 levels. **Central Saanich** led area markets, with average residential renovation permit values of $34,466. **Saanich** was next highest, at $24,514. Average permit values in **other area markets ranged from $9,076 through $24,164.**

The trend to higher renovation spending reflects **more substantial projects** and, increasingly, **rising materials and labour costs.** Current homeowners and new purchasers are renovating for **home offices, secondary suites** and **media rooms,** as well as more traditional **kitchen, bathroom, deck, basement** and **attic/additions.** ❖



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CMHC FORECAST SUMMARY

Victoria Metropolitan Area

April 2003

RESALE MARKET	2001	2002	2003F	2004F	Chg
MLS® Listings	8,667	8,976	8,850	9,100	2.8%
MLS® Sales					
Single-family	4,090	4,430	4,200	4,280	1.9%
Townhouse	607	584	630	650	3.2%
Condo Apartment	1,169	1,451	1,510	1,550	2.6%
TOTAL	*5,866*	*6,465*	*6,340*	*6,480*	2.2%
MLS® Price					
Single-family	$259,138	$280,218	$298,000	$304,000	2.0%
Townhouse	$202,366	$212,988	$227,500	$231,000	1.5%
Condo Apartment	$137,535	$150,547	$159,000	$165,000	3.8%
NEW HOME MARKET					
Starts					
Total	1,264	1,344	1,465	1,650	12.6%
Single-family	631	879	910	980	7.7%
Semi	63	73	95	105	10.5%
Townhouse	64	140	130	145	11.5%
Condo Apartment	85	127	225	280	24.4%
Rental	421	125	105	140	33.3%
Complete & unoccupied (monthly average)					
Total	262	119	118	140	18.6%
Single-family & Semi	119	47	50	55	10.0%
Townhouse	19	5	12	15	25.0%
Condo Apartment	124	67	56	70	25.0%
Median New Home Price					
Single-family	$285,350	$299,925	$311,000	$326,500	5.0%
3 Bed. Townhouse	$253,975	$265,000	$275,000	$285,000	3.6%
2 Bed. Condo Apt	$221,500	$284,250	$260,000	$275,000	5.8%
RENTAL MARKET					
Vacancy Rate (Oct.)	0.5%	1.5%	1.8%	1.1%	
% Increase in apartment rents	2.4%	2.5%	2.9%	3.5%	
ECONOMIC OVERVIEW					
Mortgage Rate (3 yr.)	6.88%	6.28%	6.43%	7.64%	
Employment Growth	-3.1%	1.5%	2.1%	2.5%	
Net Migration	2,150	2,030	2,080	2,150	

F = CMHC Forecast

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